



October 2004

# **Legislative Audit Division**

**State of Montana**

**Report to the Legislature**

## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2004**

## **Department of Administration**

**This report contains ten recommendations to the department.  
Opportunities to improve department operations include:**

- ▶ **Compliance with state and federal laws and policies**
- ▶ **Seeking legislation to update and amend state laws**

**This report also contains a disclosure issue regarding the  
department's legislative proposals to amend or update three existing  
laws.**

**Direct comments/inquiries to:  
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Helena MT 59620-1705**

**04-13**

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## FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
Phone (406) 444-3616

Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
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# LEGISLATIVE AUDIT DIVISION

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October 2004

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Administration for the two fiscal years 2002-03 and 2003-04. This report contains ten recommendations related to compliance with state and federal laws and policies. The report also contains a disclosure issue regarding proposed legislation to amend or update three existing laws.

The department's written response to the audit recommendations is included on page B-3 of the audit report. We thank the director and department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*(Signature on File)*

Scott A. Seacat  
Legislative Auditor

# **Legislative Audit Division**

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## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2004**

## **Department of Administration**

Members of the audit staff involved in this audit were Jean Carstensen-Garrett, Chris G. Darragh, John Fine, Melissa Heinert, Hollie Koehler, Amber Long, and Jim Manning.

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## Appointed and Administrative Officials

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### Department of Administration

Steve Bender, Acting Director

Paul Christofferson, Administrator  
Administrative Financial Services

Thomas B. O'Connell, Administrator  
Architecture and Engineering Division

Marvin Eicholtz, Administrator  
General Services Division

Jeff Brandt, Acting Chief Information Officer  
Information Technology Services Division

Anne Goodwin, Commissioner  
Banking & Financial Institutions Division

Brett Dahl, Administrator  
Risk Management and Tort Defense Division

Gerald LaChere, Director  
Montana State Lottery Division

Randy Morris, Administrator  
State Personnel Division

Greg Thornquist, Chairman  
State Tax Appeal Board\*

Chad Wright, Attorney  
Appellate Defender's Office

Judy Edwards, Executive Director  
Montana Consensus Council\*

\*Officials of entities attached to the department for administrative purposes are listed above if the entities' financial activities are included in the department's financial schedules. The Public Employees' Retirement Administration, the Teachers' Retirement System, and the Montana State Fund issue separate annual financial statements, so officials of these entities are not listed.

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**Department of  
Administration**

This report documents the results of our financial-compliance audit of the Department of Administration (department) for the two fiscal years ended June 30, 2004. The previous audit report of the department contained eight recommendations. The department implemented five recommendations and partially implemented three recommendations.

This report contains ten recommendations addressing compliance with state or federal laws and regulations. The first four recommendations address areas where the department could improve compliance to ensure all costs charged to federal programs are allowable. The six remaining recommendations address improving compliance with state laws.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader may rely on the presented financial information and the supporting data on the state's accounting records.

The department's written response to the audit begins on page B-3.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department collect certified weekly payrolls for projects subject to the federal Davis-Bacon Act in accordance with federal regulations. .... 6

Department Response: Concur. See page B-3.



## Report Summary

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<u>Recommendation #2</u>	We recommend the department implement controls to ensure federal funds are expended in compliance with state and federal regulations. ....	7
	<u>Department Response:</u> Concur. See page B-3.	
<u>Recommendation #3</u>	We recommend the department require employees to properly complete travel vouchers in accordance with state policy. ....	8
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	<u>Department Response:</u> Concur. See page B-4.	
<u>Recommendation #5</u>	We recommend the department develop and implement a plan to operate its property and casualty insurance plan on an actuarially sound basis. ....	11
	<u>Department Response:</u> Concur. See page B-4.	
<u>Recommendation #6</u>	We recommend the department record the mineral leasing transfer obligations at the conclusion of the fiscal year as required by section 17-3-240, MCA.....	12
	<u>Department Response:</u> Do Not Concur. See page B-4.	
<u>Recommendation #7</u>	We recommend the department review support for the long-term notes and loans receivable balance in the surplus property fund and the fund balance-reserved balance in the trust fund. ....	13
	<u>Department Response:</u> Concur. See page B-5.	

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### Recommendation #8

We recommend the department maintain records of the information provided to the consultant to document the state's compliance with terms of the SWCAP contract..... 14

Department Response: Concur. See page B-5.

### Recommendation #9

We recommend the department pay the genetics program fee by March 1 as required by section 33-2-712, MCA..... 15

Department Response: Concur. See page B-5.

### Recommendation #10

We recommend the department seek legislation to amend section 17-5-302, MCA, to reflect current security industry practice. .... 16

Department Response: Concur. See page B-5.

# Introduction

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## Introduction

We performed a financial-compliance audit of the Department of Administration (department) for the two fiscal years ended June 30, 2004. The objectives of the audit were to:

1. Make recommendations for improvement in the department's operations, including internal and management controls.
2. Test the department's compliance with applicable laws and regulations.
3. Review the implementation status of the prior audit recommendations.
4. Determine if the department's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 2004.

This report contains ten recommendations to the department. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not included in this report, but have been communicated to management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

As required by section 17-8-101(6), MCA, we analyzed the rates charged and fund equity in the department's Internal Service Funds. Our findings in this area are presented beginning on page 7.

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## Department Organization and Functions

The department provides services to other state agencies in the areas of accounting and financial reporting, warrant writing, capitol complex maintenance, state treasury services, insurance coverage, information systems development, personnel management, purchasing, and surplus property administration.

The following paragraphs describe the divisions which perform the department's primary functions.

## Introduction

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**Director's Office** (13.25 FTE) - responsible for the overall supervision and coordination of agency programs and administratively attached boards and agencies. The department director chairs the Capital Finance Advisory Council (CFAC), which provides oversight of state debt management by performing analysis of prospective financing, existing debt load and trends in public finance markets. The office includes the department's legal unit, consisting of the Chief Legal Counsel and four other attorneys. The office also supports the Board of Examiners and maintains its minutes. The Consumer Protection Office is a part of this office and provides assistance and follow-up related to telemarketing fraud.

**Administrative Financial Services** (37.25 FTE) - establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act (CMIA), processes warrants for all state agencies, and prepares the state's Basic Financial Statements. The division also provides management support (accounting, budgeting, payroll, data processing, and personnel management) services to the department.

**Banking and Financial Institutions Division** (31.75 FTE) - is responsible for protecting the public's interest by regulation of all state-chartered banks and financial institutions. Supervision of regulated financial institutions is accomplished through on-site financial safety and soundness examinations conducted by division examiners.

**Architecture and Engineering** (17 FTE) - manages the remodeling and construction of state buildings. The division also formulates a long-range building plan for legislative consideration each session.

**General Services** (94.5 FTE) - manages repair and maintenance services for state agencies in the Capitol complex and several state-owned buildings in the Helena area. Under a reorganization done during fiscal year 2002, the procurement and printing function became part of this division. Procurement and printing provides

centralized purchasing, printing, and mail services to state agencies located in the Helena area.

**Information Technology Services** (187 FTE) - maintains the Statewide Accounting, Budgeting, and Human Resources System (SABHRS), and provides central mainframe computer processing services for statewide data communications networks that access the central mainframe computer. The division, headed by the Chief Information Officer, establishes and enforces statewide IT policies and standards. The division is responsible for the development and implementation of the Strategic Plan for Information Technology. The division designs and develops data processing applications and provides maintenance support. The division also provides data processing training and support, as well as consulting services, for microcomputer and office automation systems. Disaster recovery facilities for critical data processing applications are also managed by the division.

**State Personnel** (42.62 FTE) - provides state agencies with a variety of human resource management programs including training, position classification and pay, collective bargaining, and employee relations. The division publishes state rules, standards and policies relating to recruitment, selection, discipline, grievance, performance appraisal, leave, and other matters. The division administers benefit plans that include health, flexible spending accounts, a sick leave fund, and employee incentive awards.

**Risk Management and Tort Defense** (16 FTE) - provides insurance coverage for state agencies, administers the self-insurance and risk management program, and defends state agencies in tort claims lawsuits.

**Montana State Lottery** (31.5 FTE) - sets policy and oversees activities and procedures of the lottery. The program director coordinates the lottery's marketing, operations, security, and administration. The lottery is administratively attached to the department. However, it is audited separately from the department.

## **Introduction**

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In addition to the divisions listed above, financial activity of three agencies administratively attached to the department, the Teachers' Retirement System (#03-09 and 04-09), the Public Employees' Retirement Administration (#03-08 and 04-08), and the Montana State Fund (#03-05 and 04-05), are presented in separate audit reports prepared by the Legislative Audit Division. Financial activity of the Montana State Lottery is audited annually by a private CPA firm, under contract with the Legislative Auditor. Legislative Audit Division information systems auditors perform biennial audits of lottery security (03DP-03).

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### **Prior Audit Recommendations**

The prior audit report for the fiscal year ended June 30, 2002, contained eight recommendations to the department. The department implemented five recommendations and partially implemented three recommendations. Partially implemented recommendations concern fees commensurate with costs (page 9), unsupported account balances (page 12), mileage reimbursements rates and consumer loan reports (page 17).

# Findings and Recommendations

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## Federal Compliance

During our audit, we tested compliance with state and federal laws and regulations. In the following four sections we discuss instances where the department could improve compliance with federal regulations. By improving compliance the department could ensure all costs charged to federal programs are allowable.

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## Davis-Bacon Requirements

### **Failure to comply with federal regulations results in unallowable charges to federal programs.**

The department's Architecture and Engineering Division (A&E) administers state construction projects for various state agencies. For projects with federal funding, A&E includes specific federally required clauses, including Davis-Bacon prevailing wage rates, within the contract document. Title 29 of the Code of Federal Regulations, Section 5.5, requires the contractor to submit to A&E a copy of the weekly payroll and a statement of compliance with federal prevailing wage requirements for each week in which any contract work is performed.

During fiscal years 2002-03 and 2003-04, there were 28 active projects that involved federal funds. The department did not collect the certified weekly payroll for three of these projects. The project managers are aware of the prevailing wage requirements, but not all of them were aware that the department needed to receive copies from the contractor. As a result, we question \$251,098 of costs paid by A&E, broken down as follows:

On two projects, A&E included Davis-Bacon prevailing wage schedules in the contract documents, but did not collect the certified weekly payrolls. Subsequent to our tests, department personnel obtained the payrolls for one of the projects. However, department personnel were not able to obtain the payrolls for the second project, so we question costs of \$226,941 related to this project.

On the third project, A&E did not attach prevailing wage schedules because the contract amount was under the \$25,000 state threshold. Federal regulations specify that Davis-Bacon prevailing wage requirements apply for federal participation in

## Findings and Recommendations

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excess of \$2,000. As a result, we question costs of \$24,157. Department personnel said they were not aware this project was subject to the federal requirements.

Department personnel said it is the responsibility of the state agency initiating the construction to inform A&E of the applicable federal requirements. However, A&E is ultimately responsible for administering the construction projects in compliance with applicable requirements. A&E should communicate with the other agencies to determine if federal funds are involved, in order to ensure compliance with federal regulations.

### **Recommendation #1**

**We recommend the department collect certified weekly payrolls for projects subject to the federal Davis-Bacon Act in accordance with federal regulations.**

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### **Controls Over Federal Charges**

**Inadequate controls at ITSD resulted in questioned costs of \$112,153.**

The department's Information Technology Services Division (ITSD) entered into two agreements, one in March 2001 and one in October 2002, with the Montana Department of Transportation, Traffic Safety Bureau, for work on Public Safety Radio projects. The agreements clearly identified the source of funds as federal funds from the U.S. Department of Transportation, National Highway Traffic Safety Administration. The agreements noted that ITSD was subject to compliance with applicable state and federal laws and regulations, including the Single Audit Act and OMB Circular A-133.

Our office performed "agreed upon procedures" for the Montana Department of Transportation and the National Highway Traffic Safety Administration related to the Highway Safety Grant funds awarded to the Department of Transportation. As part of this audit, we analyzed the errors identified in our "agreed upon procedures" work and found that the existing controls at ITSD were not adequate



## Findings and Recommendations

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to ensure that all expenditures incurred by ITSD on the Public Safety Radio projects were in compliance with state and federal regulations. ITSD staff who were responsible for reviewing and approving claims did not have adequate knowledge of grant regulations to ensure claims paid were allowable for federal reimbursement. Based on our contract work, we noted a total of \$112,152 in questioned costs (\$29,894 in federal fiscal year 2001-02 and \$82,258 in federal fiscal year 2002-03). These costs are in addition to the questioned travel costs discussed in the following section.

### **Recommendation #2**

**We recommend the department implement controls to ensure federal funds are expended in compliance with state and federal regulations.**

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### **Travel Reimbursements**

**Failure to comply with state policy results in costs which are not supported or not documented, and results in \$11,962 of questioned costs to federal programs.**

State travel policy is outlined in the Montana Operations Manual, Volume 1, Chapter 300. The policy states that miscellaneous business expenses associated with official state travel are reimbursable. Each expense of \$25 or more must be supported with paid receipts. All miscellaneous expenses should be explained in the space provided on the travel reimbursement voucher. During our audit, we found travel reimbursement vouchers completed incorrectly by Information Technology Services Division (ITSD) employees. The vouchers we inspected contained several miscellaneous items over \$25 that did not have supporting receipts, and miscellaneous expense items that were not described on the voucher.

The state travel policy also provides time ranges in determining eligibility for meal allowances. In order to claim an allowance for a meal, employees must be in a travel status for more than three continuous hours within the following time ranges:

## Findings and Recommendations

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12:01 a.m. to 10 a.m. (morning meal)

10:01 a.m. to 3 p.m. (midday meal)

3:01 p.m. to midnight (evening meal)

In our review of the travel vouchers, we noted several instances where return times were omitted and the maximum amount of meal reimbursements was charged.

In our review of travel vouchers, we also noted several items where the support was not adequate to show the expenditure was related to the federal grant.

The items noted above are not supported or not documented as required by state policy. Because they are not in compliance with state policy, they are also not allowable for charges to federal grants. Based on the information above, we question costs of \$546 for state fiscal year 2003-04, \$9,334 in federal fiscal year 2002-03, and \$2,082 in federal fiscal year 2001-02.

### **Recommendation #3**

**We recommend the department require employees to properly complete travel vouchers in accordance with state policy.**

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### **Training**

**The department needs to provide training for employees in order to improve compliance with federal regulations.**

Historically, the department has had little, if any, federal grant or sub-grant activity. However, that changed during the current audit period. ITSD began actively soliciting federal grants and sub-grants related to planning and implementation of public safety communications, interoperable systems, and integrating radio, 9-1-1, and geographic information system information for improved emergency response for the public. According to department officials, current projections for total work in these areas could exceed \$200 million statewide in future years. Some of the issues noted in the previous three sections were due in part to employees not being aware of the applicable grant management and compliance

## Findings and Recommendations

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requirements and because some of this grant, sub-grant activity is new for the department.

Based on our discussions with employees and department officials, we found that the employees involved in grant activities were not fully trained and aware of the relevant federal regulations and reporting requirements. If the department intends to continue seeking and spending federal funds, it should improve communication and provide training concerning federal requirements and improve controls and compliance with federal regulations as noted in the three previous sections.

### **Recommendation #4**

**We recommend the department provide appropriate staff training regarding administration of federal grants and federal grant requirements in order to improve compliance with those regulations.**

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## State Compliance

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### Fees Commensurate With Costs

The following sections discuss instances noted during our audit where the department could improve compliance with state laws.

**Fees for the property and casualty self-insurance plan are not commensurate with costs and are not sufficient to eliminate fund deficits of \$21.2 million over an appropriate time period.**

The department's organizational structure includes 17 internal service funds that account for the financing of goods and services to other divisions, state agencies, and other governmental entities. These funds operate similar to private business; the costs of goods or services are to be recovered from customers.

We are required by law to review and report on the reasonableness of the internal service fund fees and fund equity. We noted the department has made progress in this area. However, as disclosed in our prior audit report, the department is not including the actuarial estimated claims liability in its calculation of fees charged to state

## Findings and Recommendations

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agencies for property and casualty insurance under the state's self-insurance plan. By not including this liability in the rate calculation, the division is not recovering its true costs of providing insurance coverage to state agencies. Section 17-8-101(6), MCA, states that fees and charges for services deposited in the internal service fund type must be based upon commensurate costs.

The state's self-insurance plan continues to have a deficit fund balance because there is no plan to fund reserves at a level necessary to cover the estimated claims liability. However, some improvement has occurred since the last audit. The deficit fund balance has decreased from (\$33.65 million) at June 30, 2002 to (\$21.21 million) at June 30, 2004.

Department personnel agreed that the fees for the self-insurance plan are not commensurate with costs and are not sufficient to fully fund operations and claims costs on an actuarial basis. Department officials stated they are transitioning to a system to fund the insurance plan on an actuarially sound basis. They have submitted rates to the Governor's Office of Budget and Program Planning for the 2006-07 biennium, which should reduce the deficit by approximately \$14.5 million at the end of the biennium. The officials stated the proposed rates have been approved by the Budget Office. By the end of the 2006-07 biennium, department officials intend to establish a rate-setting process which will appropriately fund the plan on an actuarially sound basis.

The department should develop a plan to eliminate the fund deficit over an appropriate time period to enable the property and casualty plan to operate on an actuarially sound basis.

### **Recommendation #5**

**We recommend the department develop and implement a plan to operate its property and casualty insurance plan on an actuarially sound basis.**

## Findings and Recommendations

### Mineral Leasing Transfers

**Failure to properly accrue the mineral leasing transfer at June 30, 2004 overstates fund balance in the General Fund by \$3.5 million.**

Federal mineral leasing funds are paid to the state pursuant to 30 U.S.C. 191 and must be deposited in the state General Fund. According to section 17-3-240, MCA, subsection (2), at the conclusion of fiscal year 2003-04, the state treasurer shall distribute 12.5 percent of all money received pursuant to subsection (3). Subsection (3) states on August 15 following the close of the fiscal year, the state treasurer shall distribute the distributions in subsection (2) to the mineral impact account in the state special revenue fund. The distribution to the eligible counties must be allocated based on the proportion that the total amount of revenue generated by mineral extraction in an eligible county bears to the total amount of money received by the state.

The department did not establish a liability in the amount of \$3,502,401 in the General Fund at the conclusion of fiscal year 2003-04, as required by law. Department personnel stated the distribution is not due to the counties until August 15 and believe there is no liability until then. However, the law establishes, in subsection (2), a liability for the distribution at the end of the fiscal year. This decision by the department overstates the fund balance and understates the liability in the General Fund at June 30, 2004. It also understates the receivable and payable to the counties in the state special revenue fund at fiscal year end.

#### **Recommendation #6**

**We recommend the department record the mineral leasing transfer obligations at the conclusion of the fiscal year as required by section 17-3-240, MCA.**

## Findings and Recommendations

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### Unsupported Account Balances

**Two balance sheet account balances are unsupported and the amounts have not changed for years.**

In our prior audit, we noted the department had several balance sheet account balances that were unsupported. During the current audit we verified the department corrected some of the accounts discussed in the prior report. However, we noted two accounts remain unsupported.

The Long-Term Notes and Loans Receivable account balance of \$3,455 in the Surplus Property fund has remained unchanged since 1990. Department officials said the account balance related to an overseas surplus property transaction but had no support for the receivable balance. Officials said they were trying to contact the company to determine if the amount was paid.

The Fund Balance-Reserved account balance of \$224 in the Trust Fund has not changed since the SABHRS conversion in 1999. Department officials stated this account related to financing school bonds in 1991. The bonds have been refunded.

Section 17-1-102(4), MCA, requires state agencies to input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles. To ensure all necessary transactions are input into the accounting system, staff should consider whether balances that do not change from year to year have valid support.

#### **Recommendation #7**

**We recommend the department review support for the long-term notes and loans receivable balance in the surplus property fund and the fund balance-reserved balance in the trust fund and take appropriate action.**

## Findings and Recommendations

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### Records Retention

**The department does not maintain supporting records to monitor contract performance for the Statewide Cost Allocation Plan.**

The department contracts with a consulting firm to prepare and negotiate the Statewide Cost Allocation Plan (SWCAP) with the federal government. Under provisions of the contract, the department provides cost information and certain transaction activity data to the consultant. The consultant uses the information to calculate the cost pool and determine its allocation in the SWCAP submitted to the federal agency. The contract requires the consultant to maintain records of the SWCAP and supporting information.

A department official said that the consultant gathers the cost and activity data used to develop the SWCAP from various sources within the department. Therefore, the contract monitor does not keep a file of all information given to the consultant by state personnel. According to the official, the department relies on the consultant to maintain records related to the SWCAP as stated in the contract.

Section 2-6-202(1)(a)(i)(A), MCA, defines a public record as any paper, correspondence, form, computer storage media, or other document that has been created or received by a state agency in connection with the transaction of official business. The General Records Retention Schedule created by the Secretary of State requires the state to keep contract records for a total of eight years.

The department has the responsibility to maintain records of the information provided to the SWCAP consultant in order to monitor contract performance. In addition, it is a prudent business practice to keep records of the information given to the consultant. By keeping these records, the department can document its performance of contract terms.

## Findings and Recommendations

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### **Recommendation #8**

**We recommend the department maintain records of the information provided to the consultant to document the state's compliance with terms of the SWCAP contract.**

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#### **Genetics Fee**

**The department has not paid the genetics fee by the statutory deadline.**

Section 33-2-712, MCA, requires the state group health plan and other insurers to pay 70 cents per insured as of February 1 to the State Auditor by March 1 to fund the statewide genetics research program. The department had not paid the fee for the state group health plan as of June 4, 2004. A benefits bureau official said the State Auditor's Office did not send a bill this year as it had in previous years. We noted that a form to report plan membership and calculate the genetics fee due is available on the State Auditor's website.

### **Recommendation #9**

**We recommend the department pay the genetics program fee by March 1 as required by section 33-2-712, MCA.**

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#### **Refunding Bonds**

**State law regarding refunding bonds is out of date and does not reflect current industry practice.**

Section 17-5-302, MCA, states that, "each issue of refunding bonds or debentures shall bear upon their face such statement as may be necessary to show that they are refunding bonds or debentures, and the bonds or debentures which are issued to refund. Each bond and debenture shall bear the signature of each member of the board of examiners and shall have affixed to it the great seal of the state of Montana. Each serial bond thereof shall have coupons attached thereto showing the semiannual payments due thereon which



## Findings and Recommendations

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coupons shall bear the signature of each member of the board of examiners.”

The department issues refunding bonds using the Depository Trust Company (DTC) format rather than actual physical certificates as described in state law. DTC holds securities and facilitates the clearance and settlement of securities transactions through electronic book-entry changes in accounts of the DTC participants, thereby eliminating the physical movement of securities certificates. The ownership interests of each bond purchaser is recorded by DTC. The purchaser does not receive certificates representing their ownership interest in the bonds.

The current financial security industry practice for bonds has changed, but the law for refunding bonds has not been updated or modified since 1959. Because current law does not reflect standard industry practice the department should seek legislation to update the law.

### **Recommendation #10**

**We recommend the department seek legislation to amend section 17-5-302, MCA, to reflect current security industry practice.**



# Disclosure Issue

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## Legislative Proposals

During our testing of state laws, we noted the following instances where the department was not in compliance with the specific state laws noted. The first two instances were also noted in our prior audit of the department. Department officials stated they intend to seek legislation to address each of the three items discussed in the following sections.

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## Mileage Reimbursement Rates

The department's duties include establishing travel policy, including reimbursement rates for expenses such as meals, lodging, and personal car mileage. During the August 2002 Special Legislative Session, House Bill 6 modified the reimbursement amount for personal car mileage in section 2-18-503, MCA. Subsection (2)(a), was modified to reimburse state employees for personal car mileage when a state vehicle was available at the rate of 52 percent of the "low mileage rate" allowed by the IRS for the current year. Prior to this change, the law had allowed for reimbursement at a rate of three cents less per mile than the mileage rate allowed by the IRS for the current year.

As noted in our prior audit report, the department, in interpreting the modified statute, assumed that the "low mileage rate" of the IRS was the standard business rate reduced by three cents. The 52 percent was then applied to the modified rate rather than directly to the standard business rate as specified by the revisions to section 2-18-503 (2)(a), MCA. Department personnel stated that they believed they had calculated the revised mileage rate consistent with legislative intent. In response to our prior audit recommendation, the department stated it would seek to clarify the language on the mileage reimbursement during the 2005 Legislative Session.

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## Consumer Loan Annual Reports

Section 32-5-308, MCA, states the annual reports submitted by consumer loan businesses shall include a reconciliation of surplus or net earnings with the businesses' balance sheet and a schedule of assets used in the consumer loan business. The current form prescribed by the department does not request this information be submitted. As noted in our prior audit report, department personnel

## Disclosure Issue

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stated that this law has remained unchanged since 1959 and no longer reflects how consumer loan businesses operate. In response to our prior audit recommendation, the department stated it would seek legislation during the 2005 Legislative Session to bring the reporting requirements of this statute into conformance with current operating practices of consumer loan businesses.

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### Board of Examiners Meetings

Section 2-15-1007(2), MCA, requires the Board of Examiners (Board) to meet on the third Monday in each month and such other times as deemed necessary. Based on our review of the Board minutes, we noted the meetings are not always held on the third Monday of each month, nor was a meeting held every month as specified by statute. The Board is administratively attached to the department. A department official stated the Board meets when needed to authorize the issuance of general obligation bonds. The official stated it was not necessary for the Board of Examiners to meet every month. The official provided documentation that the department was preparing to seek legislation during the 2005 Legislative Session to modify this law.

Because the department has submitted legislative proposals to the Governor's Office to amend the three laws noted above, we note these items for disclosure purposes and make no further recommendations at this time.

# **Independent Auditor's Report & Department Financial Schedules**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Administration for each of the fiscal years ended June 30, 2003, and 2004. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances/property held in trust of the Department of Administration for each of the fiscal years ended June 30, 2003, and 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*(Signature on File)*

James Gillett, CPA  
Deputy Legislative Auditor

August 31, 2004





DEPARTMENT OF ADMINISTRATION  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund
FUND BALANCE: July 1, 2003	\$ 78,188,634	\$ 3,350,693	\$ 24,702,249	\$ 1,783,037	\$ 15,090,151	\$ 696,109	\$ (24,675,619)	\$ 6,257	\$ 1,921,715	\$ 224	\$ (153,459)	\$ (240,583)	\$ (23,225)
PROPERTY HELD IN TRUST: July 1, 2003								\$ 273,420					
ADDITIONS													
Budgeted Revenues & Transfers-In	28,373,356	3,177,300	26,032,655		7,002,945	42,124,149	69,437,508						
NonBudgeted Revenues & Transfers-In	956,628	1,193,122	929	28,481,739	5,901,695	35,082	86,401,880		917,566		128,675		
Prior Year Revenues & Transfers-In Adjustments	14,719	4,883,577			81,835	55	(906,295)		(939,523)				
Direct Entries to Fund Balance	87,563,985	7,499,736	(28,525,710)		5,440,132	37,248	425,873	(6,257)	(2,050)			2,273,300	690,656
Additions to Property Held in Trust								21,194					
Total Additions	116,908,688	16,753,735	(2,492,126)	28,481,739	18,426,607	42,196,534	155,358,966	14,937	(24,007)		128,675	2,273,300	690,656
REDUCTIONS													
Budgeted Expenditures & Transfers-Out	24,230,132	17,827,209	2,502,563		20,565,125	34,504,629	141,005,774					2,325,847	847,296
NonBudgeted Expenditures & Transfers-Out	5,507,835	1,425,620	(197,055)	28,570,641	3,259,275	8,143,393	(6,820,099)		824,182	224	70,146		
Prior Year Expenditures & Transfers-Out Adjustments	4,670,493	781,045		(759)		(250,013)	(1,814,449)				(303)		
Reductions in Property Held in Trust								294,614					
Total Reductions	34,408,460	20,033,874	2,305,508	28,569,882	23,824,400	42,398,009	132,371,226	294,614	824,182	224	69,843	2,325,847	847,296
FUND BALANCE: June 30, 2004	\$ 160,688,862	\$ 70,554	\$ 19,904,615	\$ 1,694,894	\$ 9,692,358	\$ 494,634	\$ (1,687,879)	\$ 0	\$ 1,073,526	\$ 0	\$ (94,627)	\$ (293,130)	\$ (179,865)
PROPERTY HELD IN TRUST: June 30, 2004								\$ 0					

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund
FUND BALANCE: July 1, 2002	\$ 113,590,074	\$ 3,203,558	\$ (621,650)	\$ 3,321,565	\$ 7,823,494	\$ 1,262,083	\$ (22,102,963)	\$ 0	\$ 616,827	\$ 224	\$ (47,514)	\$ (77,048)	\$ (21,724)
PROPERTY HELD IN TRUST: July 1, 2002								\$ 297,503					
ADDITIONS													
Budgeted Revenues & Transfers-In	44,934,356	2,200,659	25,662,269		26,335,173	40,026,319	135,355,537						
NonBudgeted Revenues & Transfers-In	1,949,086	2,612,124	1,001	68,218,025	534,436	169,981	108,885		1,734,875				
Prior Year Revenues & Transfers-In Adjustments	20,689	(1,800)			(214,371)	(348)	283,201						
Direct Entries to Fund Balance	(49,316,202)	7,873,392	5,118,209		5,107,638	27,707	208,512	6,257	(2,793)			1,129,144	479,442
Additions to Property Held in Trust								84,808					
Total Additions	(2,412,071)	12,684,375	30,781,479	68,218,025	31,762,876	40,223,659	135,956,135	91,065	1,732,082			1,129,144	479,442
REDUCTIONS													
Budgeted Expenditures & Transfers-Out	28,176,788	12,507,900	5,439,464		20,969,020	32,223,080	136,049,532				105,642	1,292,679	480,943
NonBudgeted Expenditures & Transfers-Out	4,834,945	33,234		69,756,553	3,527,389	8,561,813	3,639,256		427,194		303		
Prior Year Expenditures & Transfers-Out Adjustments	(22,364)	(3,894)	18,116		(190)	4,740	(1,159,997)						
Reductions in Property Held in Trust								108,891					
Total Reductions	32,989,369	12,537,240	5,457,580	69,756,553	24,496,219	40,789,633	138,528,791	108,891	427,194		105,945	1,292,679	480,943
FUND BALANCE: June 30, 2003	\$ 78,188,634	\$ 3,350,693	\$ 24,702,249	\$ 1,783,037	\$ 15,090,151	\$ 696,109	\$ (24,675,619)	\$ 6,257	\$ 1,921,715	\$ 224	\$ (153,459)	\$ (240,583)	\$ (23,225)
PROPERTY HELD IN TRUST: June 30, 2003								\$ 273,420					

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		\$ 87,475				\$ 1,850				\$ 89,325
Taxes	\$ 2,507					164	\$ 811			3,482
Charges for Services	6,662,291	2,074,998			\$ 242,748	5,196,923	148,815,782			162,992,742
Investment Earnings	7,157,725	16,718	\$ 379	\$ 97,464	22,293	45,208	221,822	\$ 33	\$ 629	7,562,271
Fines, Forfeits and Settlements	4,211,508	387,215								4,598,723
Sale of Documents, Merchandise and Property						36,737,657	4,282,084			41,019,741
Rentals, Leases and Royalties	119									119
Contributions and Premiums									128,046	128,046
Miscellaneous	904,111	836,503	929		15,228	699	429,200			2,186,670
Grants, Contracts, Donations and Abandonments		35,772						(21,990)		13,782
Other Financing Sources	10,011,152	5,815,317		28,384,275	12,706,206		1,183,394			58,100,344
Federal	395,290		26,032,276							26,427,566
Capital Contributions						176,785				176,785
Total Revenues & Transfers-In	29,344,703	9,253,998	26,033,584	28,481,739	12,986,475	42,159,286	154,933,093	(21,957)	128,675	308,299,596
Less: Nonbudgeted Revenues & Transfers-In	956,628	1,193,122	929	28,481,739	5,901,695	35,082	86,401,880	917,566	128,675	124,017,316
Prior Year Revenues & Transfers-In Adjustments	14,719	4,883,577			81,835	55	(906,295)	(939,523)		3,134,368
Actual Budgeted Revenues & Transfers-In	28,373,356	3,177,299	26,032,655	0	7,002,945	42,124,149	69,437,508	0	0	176,147,912
Estimated Revenues & Transfers-In	27,706,626	7,299,596	4,380,617		41,502,844	40,953,547	155,643,151			277,486,381
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 666,730	\$ (4,122,297)	\$ 21,652,038	\$ 0	\$ (34,499,899)	\$ 1,170,602	\$ (86,205,643)	\$ 0	\$ 0	\$ (101,338,469)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits		\$ (25,500)				\$ (150)				\$ (25,650)
Charges for Services	\$ 3,671,894	29,451			\$ 132,748	(1,079)	\$ (85,286,614)			(81,453,600)
Investment Earnings	(6,952,297)	(71,568)	\$ (1,621)		793	(92,612)	(679,975)			(7,797,280)
Fines, Forfeits and Settlements	(537,092)	(569,785)								(1,106,877)
Sale of Documents, Merchandise and Property						1,087,657	(487,917)			599,740
Rentals, Leases and Royalties	119									119
Contributions and Premiums										0
Miscellaneous	(113)	615,583			(10,000)		(431,797)			173,673
Grants, Contracts, Donations and Abandonments		(27,460)								(27,460)
Other Financing Sources	4,284,526	(1,220,018)			(34,623,440)		680,660			(30,878,272)
Federal	199,693	(2,853,000)	21,653,659							19,000,352
Capital Contributions				\$		176,786		\$	\$	176,786
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 666,730	\$ (4,122,297)	\$ 21,652,038	\$ 0	\$ (34,499,899)	\$ 1,170,602	\$ (86,205,643)	\$ 0	\$ 0	\$ (101,338,469)

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DEPARTMENT OF ADMINISTRATION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS									
Licenses and Permits		\$ 80,490				\$ 4,600			\$ 85,090
Taxes	\$ 2,197		\$ 16				\$ 1,093		3,306
Charges for Services	7,466,069	1,719,935			\$ 102,390	4,955,290	128,941,237	\$ 223	143,185,144
Investment Earnings	7,137,547	42,737	641	\$ 169,959	44,763	79,061	593,118	129	8,067,955
Fines, Forfeits and Settlements	4,427,417	1,480,343							5,907,760
Sale of Documents, Merchandise and Property						34,682,494	4,154,702		38,837,196
Rentals, Leases and Royalties	83								83
Miscellaneous	15	248,259	985		(4,680)	318	930,462		1,175,359
Grants, Contracts, Donations and Abandonments		48,219						1,734,523	1,782,742
Other Financing Sources	27,870,803	1,191,000		68,048,066	26,512,765	105,325	1,100,489		124,828,448
Federal			25,661,628						25,661,628
Capital Contributions						368,864	26,522		395,386
Total Revenues & Transfers-In	46,904,131	4,810,983	25,663,270	68,218,025	26,655,238	40,195,952	135,747,623	1,734,875	349,930,097
Less: Nonbudgeted Revenues & Transfers-In	1,949,086	2,612,124	1,001	68,218,025	534,436	169,981	108,885	1,734,875	75,328,413
Prior Year Revenues & Transfers-In Adjustments	20,689	(1,800)			(214,371)	(348)	283,201		87,371
Actual Budgeted Revenues & Transfers-In	44,934,356	2,200,659	25,662,269	0	26,335,173	40,026,319	135,355,537	0	274,514,314
Estimated Revenues & Transfers-In	44,520,328	5,942,786	25,628,906		64,767,705	43,924,287	142,428,774		327,212,787
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 414,028	\$ (3,742,127)	\$ 33,363	\$ 0	\$ (38,432,532)	\$ (3,897,968)	\$ (7,073,237)	\$ 0	\$ (52,698,473)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS									
Licenses and Permits	\$ (3,000)	\$ (18,638)				\$ 2,600			\$ (19,038)
Charges for Services	3,380,639	(1,391,410)			\$ (173,706)	(984,140)	\$ (5,566,857)		(4,735,474)
Investment Earnings	(9,934,813)	(305,074)	\$ (170,359)		(335,237)	(116,571)	(528,463)		(11,390,517)
Fines, Forfeits and Settlements	112,893	119,341							232,234
Sale of Documents, Merchandise and Property						(3,167,505)	(525,266)		(3,692,771)
Rentals, Leases and Royalties	(2,917)								(2,917)
Miscellaneous	176	(603,644)			(10,000)	(1,206)	151,094		(463,580)
Grants, Contracts, Donations and Abandonments		(374,774)							(374,774)
Other Financing Sources	7,111,050	(1,167,928)			(37,913,589)	(10)	(603,745)		(32,574,222)
Federal	(250,000)		203,722						(46,278)
Capital Contributions						368,864			368,864
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 414,028	\$ (3,742,127)	\$ 33,363	\$ 0	\$ (38,432,532)	\$ (3,897,968)	\$ (7,073,237)	\$ 0	\$ (52,698,473)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMIN FINANCIAL SERVICES DIVISION	ARCHITECTURE & ENGINEERING PROGRAM	BANKING AND FINANCIAL DIVISION	GENERAL SERVICES PROGRAM	INFORMATION TECHNOLOGY SERVICES DIVISION	MONTANA STATE LOTTERY	RISK MANAGEMENT & TORT DEFENSE	STATE PERSONNEL DIVISION	STATE TAX APPEAL BOARD	APPELLATE DEFENDER	CORRECTIONS	DEPARTMENTS & AGENCIES	INSTITUTIONS	UNIVERSITY SYSTEM	MONTANA CONSENSUS COUNCIL	TOTAL
Personal Services																
Salaries	\$ 1,802,392	\$ 679,929	\$ 1,231,334	\$ 2,361,778	\$ 7,994,193	\$ 1,053,079	\$ 497,691	\$ 1,618,922	\$ 162,877	\$ 115,515					\$ 100,362	\$ 17,618,072
Hourly Wages				447												447
Other Compensation						20,781			17,640							38,421
Employee Benefits	854,886	180,568	327,210	753,242	2,052,930	321,646	137,856	466,666	43,489	32,758					29,077	5,200,328
Personal Services-Other	71,109			(41,625)	41,535	5,400	18,641	11,624								106,684
Total	2,728,387	860,497	1,558,544	3,073,842	10,088,658	1,400,906	654,188	2,097,212	224,006	148,273					129,439	22,963,952
Operating Expenses																
Other Services	356,696	117,915	51,968	2,614,767	5,911,278	5,519,209	4,108,491	3,074,583	23,959	11,176					75,219	21,865,261
Supplies & Materials	79,134	32,760	42,315	168,821	1,272,428	179,557	23,951	123,347	5,994	1,999					10,695	1,941,001
Communications	494,935	21,446	31,164	2,865,833	5,165,263	724,002	18,758	66,863	4,581	6,835					4,606	9,404,286
Travel	40,367	27,194	192,453	13,213	186,830	13,538	23,346	58,664	3,194	2,551					8,284	569,634
Rent	130,898	37,200	114,406	293,488	7,035,896	95,396	52,212	125,606	14,161	12,444					5,304	7,917,011
Utilities	77			1,991,200	13,324		5,793									2,010,394
Repair & Maintenance	7,510	3,335	14,889	932,802	2,471,411	17,684	633	7,750	2,000	2					261	3,458,277
Other Expenses	1,456,554	92,934	1,440,322	999,145	2,964,334	19,529,960	132,656	425,541	9,099	8,464					4,818	27,063,827
Goods Purchased For Resale				8,065,449		1,145,499										9,210,948
Total	2,566,171	332,784	1,887,517	17,944,718	25,007,440	27,238,169	4,365,840	3,882,354	62,988	43,471					109,187	83,440,639
Equipment & Intangible Assets																
Equipment		20,942			(2,523,518)											(2,502,576)
Intangible Assets					4,395,445											4,395,445
Total		20,942			1,871,927											1,892,869
Capital Outlay																
Land & Interest In Land														6,400		6,400
Buildings														10,523,534		19,252,148
Other Improvements					527,263						3,425,045	3,789,589	1,513,980			527,263
Total					527,263						3,425,045	3,789,589	1,513,980	10,529,934		19,785,811
Local Assistance																
From State Sources	1,583,842								5,754							1,589,596
From Federal Sources	4,930,211															4,930,211
From Other Income Sources					6,446,218											6,446,218
Total	6,514,053				6,446,218				5,754							12,966,025
Benefits & Claims																
From State Sources								78,217,015								78,217,015
Insurance Payments							(2,423,615)	(291,428)								(2,715,043)
Other Financing Uses/Deduction	8,943,141															8,943,141
Total	8,943,141						(2,423,615)	77,925,587								84,445,113
Transfers																
Accounting Entity Transfers	26,734,248	1,091,000		500,000		8,115,602	985,073				30,004	3,606,675	603,287			41,665,889
Intra-Entity Expense	8,745											10,218				18,963
Total	26,742,993	1,091,000		500,000		8,115,602	985,073				30,004	3,616,893	603,287			41,684,852
Debt Service																
Bonds	20,627,919												62,270			20,690,189
Loans								4,587								4,587
Capital Leases					47,184											47,184
Installment Purchases				32,050		25,481										57,531
Total	20,627,919			32,050	47,184	25,481		4,587					62,270			20,799,491
Total Expenditures & Transfers-Out	\$ 68,122,664	\$ 2,305,223	\$ 3,446,061	\$ 21,550,610	\$ 43,988,690	\$ 36,780,158	\$ 3,581,486	\$ 83,909,740	\$ 292,748	\$ 191,744	\$ 3,455,049	\$ 7,468,752	\$ 2,117,267	\$ 10,529,934	\$ 238,626	\$ 287,978,752
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund	\$ 31,010,751			\$ 667,558	\$ 156,293			\$ 1,211,923	\$ 292,748	\$ 191,744		\$ 877,443				34,408,460
State Special Revenue Fund	5,130,881	\$ 1,202,681	\$ 3,446,061	2,689	6,464,450		\$ 615,582	56,044			\$ 19,980	2,551,232	\$ 211,768	\$ 93,881	238,626	20,033,875
Federal Special Revenue Fund	300,930				908,563							492,728	603,287			2,305,508
Debt Service Fund	28,569,882															28,569,882
Capital Projects Fund	168,870	1,102,542		500,000	6,545,670							3,534,031	1,302,212	7,266,010		23,824,400
Enterprise Fund	296,540			613,245		\$ 36,780,158		4,667,844			3,405,065	10,218				42,398,009
Internal Service Fund	1,820,404			19,767,118	29,913,714		2,965,904	77,904,086								132,371,226
Private Purpose Trust Fund	824,182															824,182
Permanent Fund	224															224
Unexpended Plant Fund													3,100	2,322,747		2,325,847
Renewal & Replacement Fund													847,296			847,296
Pension Trust Fund								69,843								69,843
Total Expenditures & Transfers-Out	68,122,664	2,305,223	3,446,061	21,550,610	43,988,690	36,780,158	3,581,486	83,909,740	292,748	191,744	3,455,049	7,468,752	2,117,267	10,529,934	238,626	287,978,752
Less: Nonbudgeted Expenditures & Transfers-Out	34,412,448	1,120,031	1,317,043	796,028	(2,719,757)	7,772,032	(4,819,794)	(77,317)				2,983,448				40,784,162
Prior Year Expenditures & Transfers-Out Adjustments	4,537,921	162		(429,823)	(371,230)	(171,903)	(82,385)	(93,774)	(1,679)	(101)					(1,174)	3,386,014
Actual Budgeted Expenditures & Transfers-Out	29,172,295	1,185,030	2,129,018	21,184,405	47,079,677	29,180,029	8,483,665	84,080,831	294,427	191,845	3,455,049	4,485,304	2,117,267	10,529,934	239,800	243,808,576
Budget Authority	33,411,218	1,277,058	2,254,668	22,515,884	64,159,374	30,434,341	15,404,580	93,731,246	331,230	192,061	15,413,668	73,283,815	9,290,522	152,412,959	272,898	514,385,522
Unspent Budget Authority	\$ 4,238,923	\$ 92,028	\$ 125,650	\$ 1,331,479	\$ 17,079,697	\$ 1,254,312	\$ 6,920,915	\$ 9,650,415	\$ 36,803	\$ 216	\$ 11,958,619	\$ 68,798,511	\$ 7,173,255	\$ 141,883,025	\$ 33,098	\$ 270,576,946
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund	\$ 3,545,117			\$ 21,972	\$ 16			\$ 612	\$ 36,803	\$ 216						3,604,736
State Special Revenue Fund	16,737	\$ 92,028	\$ 125,650		5,243		\$ 155,596	26			(19,980)	12,975,683	2,480,997	(81,919)	33,098	15,783,159
Federal Special Revenue Fund	109,930				2,234,677						4,786,077	20,178,669	1,006,100			28,315,453
Capital Projects Fund	324,885				11,653,395						6,497,526	35,647,259	3,686,158	6,093,441		63,902,664
Enterprise Fund	142,958			187,220		\$ 1,254,312		3,894			694,996					2,283,380
Internal Service Fund	99,296			1,122,287	126,911		6,765,319	9,645,883								17,759,696
Renewal & Replacement Fund																1,956,834
Unexpended Plant Fund					3,059,455							(3,100)		133,914,669		136,971,024
Unspent Budget Authority	\$ 4,238,923	\$ 92,028	\$ 125,650	\$ 1,331,479	\$ 17,079,697	\$ 1,254,312	\$ 6,920,915	\$ 9,650,415	\$ 36,803	\$ 216	\$ 11,958,619	\$ 68,798,511	\$ 7,173,255	\$ 141,883,025	\$ 33,098	\$ 270,576,946

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMIN FINANCIAL SERVICES DIVISION	ARCHITECTURE & ENGINEERING PROGRAM	BANKING AND FINANCIAL DIVISION	GENERAL SERVICES PROGRAM	INFORMATION TECHNICAL SERVICES DIVISION	MONTANA STATE LOTTERY	RISK MANAGEMENT & TORT DEFENSE	STATE PERSONNEL DIVISION	STATE TAX APPEAL BOARD	APPELLATE DEFENDER	CORRECTIONS	DEPARTMENTS & AGENCIES	INSTITUTIONS	UNIVERSITY SYSTEM	TOTAL
Personal Services															
Salaries	\$ 1,833,400	\$ 683,179	\$ 1,005,656	\$ 2,483,371	\$ 8,525,882	\$ 1,046,447	\$ 493,169	\$ 1,503,408	\$ 157,701	\$ 110,740					17,842,953
Other Compensation						23,310			8,100						31,410
Employee Benefits	488,683	166,998	250,223	723,032	2,027,306	295,725	126,310	401,526	39,759	29,171					4,548,733
Personal Services-Other	4,037			34,105	115,575	16,524	9,676	(452)							179,465
Total	<u>2,326,120</u>	<u>850,177</u>	<u>1,255,879</u>	<u>3,240,508</u>	<u>10,668,763</u>	<u>1,382,006</u>	<u>629,155</u>	<u>1,904,482</u>	<u>205,560</u>	<u>139,911</u>					<u>22,602,561</u>
Operating Expenses															
Other Services	471,191	116,487	41,245	2,439,344	3,189,264	5,297,371	2,977,449	2,941,562	17,531	9,863					17,501,307
Supplies & Materials	94,271	25,571	10,324	167,751	666,766	119,938	18,631	133,832	12,609	2,300					1,251,993
Communications	509,697	17,450	28,507	2,669,265	5,510,706	639,004	17,469	86,518	3,936	8,300					9,490,852
Travel	39,787	23,534	117,138	12,873	156,329	27,250	17,030	48,641	12,153	3,016					457,751
Rent	120,525	30,672	111,728	617,099	4,256,487	93,769	47,929	102,463	11,633	10,788					5,403,093
Utilities				1,695,926		12,674	4,965								1,713,565
Repair & Maintenance	5,243	2,778	12,872	578,811	2,019,389	27,324	670	6,721	1,534						2,655,342
Other Expenses	2,311,030	61,784	101,028	1,218,969	2,181,297	19,037,827	21,189	309,117	8,317	6,535					25,257,093
Goods Purchased For Resale				7,617,606		606,063									8,223,669
Total	<u>3,551,744</u>	<u>278,276</u>	<u>422,842</u>	<u>17,017,644</u>	<u>17,980,238</u>	<u>25,861,220</u>	<u>3,105,332</u>	<u>3,628,854</u>	<u>67,713</u>	<u>40,802</u>					<u>71,954,665</u>
Equipment & Intangible Assets															
Equipment					(28,080)										(28,080)
Total					<u>(28,080)</u>										<u>(28,080)</u>
Capital Outlay															
Buildings				3,000							3,590,489	7,974,915	968,811	9,407,577	21,944,792
Other Improvements					618,496										618,496
Total				<u>3,000</u>	<u>618,496</u>						<u>3,590,489</u>	<u>7,974,915</u>	<u>968,811</u>	<u>9,407,577</u>	<u>22,563,288</u>
Local Assistance															
From State Sources	1,629,594								2,736						1,632,330
From Federal Sources	241,368														241,368
From Other Income Sources					6,827,316										6,827,316
Total	<u>1,870,962</u>				<u>6,827,316</u>				<u>2,736</u>						<u>8,701,014</u>
Benefits & Claims															
From State Sources								80,408,890							80,408,890
Insurance Payments							5,413,131	2,323,028							7,736,159
Other Financing Uses/Deduction	43,492,783														43,492,783
Total	<u>43,492,783</u>						<u>5,413,131</u>	<u>82,731,918</u>							<u>131,637,832</u>
Transfers															
Accounting Entity Transfers	25,508,203	1,191,000		933,055		7,453,281	265,482				1,361,949	5,992,197	603,408		43,308,575
Total	<u>25,508,203</u>	<u>1,191,000</u>		<u>933,055</u>		<u>7,453,281</u>	<u>265,482</u>				<u>1,361,949</u>	<u>5,992,197</u>	<u>603,408</u>		<u>43,308,575</u>
Debt Service															
Bonds	26,947,753											117,492			27,065,245
Loans								2,801							2,801
Capital Leases					(1,058,846)										(1,058,846)
Installment Purchases				32,050		81,041									113,091
Total	<u>26,947,753</u>			<u>32,050</u>	<u>(1,058,846)</u>	<u>81,041</u>		<u>2,801</u>				<u>117,492</u>			<u>26,122,291</u>
Total Expenditures & Transfers-Out	\$ <u>103,697,565</u>	\$ <u>2,319,453</u>	\$ <u>1,678,721</u>	\$ <u>21,226,257</u>	\$ <u>35,007,887</u>	\$ <u>34,777,548</u>	\$ <u>9,413,100</u>	\$ <u>88,268,055</u>	\$ <u>276,009</u>	\$ <u>180,713</u>	<u>4,952,438</u>	<u>14,084,604</u>	<u>1,572,219</u>	<u>9,407,577</u>	<u>326,862,146</u>
EXPENDITURES & TRANSFERS-OUT BY FUND															
General Fund	\$ 30,279,776			\$ 884,812	\$ 132,895			\$ 1,111,470	\$ 276,009	\$ 180,007		124,400			32,989,369
State Special Revenue Fund	297,046	\$ 1,128,453	\$ 1,678,721	3,250	7,061,767		\$ 167,434	59,308		706	51,297	1,889,674	48,190	151,394	12,537,240
Federal Special Revenue Fund	280,175			643,411							1,361,949	2,568,637	603,408		5,457,580
Debt Service Fund	69,756,553														69,756,553
Capital Projects Fund	802,689	1,191,000		933,055	618,496						3,539,192	8,927,685	920,621	7,563,481	24,496,219
Enterprise Fund	501,540			1,185,255		\$ 34,777,548		4,324,002		1,288					40,789,633
Internal Service Fund	1,352,592			18,219,885	26,551,318		9,245,666	82,667,330		492,000					138,528,791
Private Purpose Trust Fund	427,194														427,194
Pension Trust Fund								105,945						1,211,759	1,292,679
Unexpended Plant Fund												80,920		480,943	480,943
Renewal & Replacement Fund															
Total Expenditures & Transfers-Out	<u>103,697,565</u>	<u>2,319,453</u>	<u>1,678,721</u>	<u>21,226,257</u>	<u>35,007,887</u>	<u>34,777,548</u>	<u>9,413,100</u>	<u>88,268,055</u>	<u>276,009</u>	<u>180,713</u>	<u>4,952,438</u>	<u>14,084,604</u>	<u>1,572,219</u>	<u>9,407,577</u>	<u>326,862,146</u>
Less: Nonbudgeted Expenditures & Transfers-Out	75,257,273	1,191,000		1,144,325	(481,110)	7,587,254	1,289,388	2,456,168				2,336,388			90,780,686
Prior Year Expenditures & Transfers-Out Adjustments	(146,295)	(26,899)	(890)	(228,360)	(680,273)	9,959	(69,514)	(16,829)	(1,928)		(136)	(2,424)			(1,163,589)
Actual Budgeted Expenditures & Transfers-Out	<u>28,586,587</u>	<u>1,155,352</u>	<u>1,679,611</u>	<u>20,310,292</u>	<u>36,169,270</u>	<u>27,180,335</u>	<u>8,193,226</u>	<u>85,828,716</u>	<u>277,937</u>	<u>180,713</u>	<u>4,952,574</u>	<u>11,750,640</u>	<u>1,572,219</u>	<u>9,407,577</u>	<u>237,245,049</u>
Budget Authority	29,412,715	1,240,474	2,198,680	22,446,845	45,672,116	31,568,896	13,129,460	87,023,909	315,772	187,366	20,337,515	87,265,618	10,853,761	125,000,114	476,653,241
Unspent Budget Authority	\$ <u>826,128</u>	\$ <u>85,122</u>	\$ <u>519,069</u>	\$ <u>2,136,553</u>	\$ <u>9,502,846</u>	\$ <u>4,388,561</u>	\$ <u>4,936,234</u>	\$ <u>1,195,193</u>	\$ <u>37,835</u>	\$ <u>6,653</u>	<u>15,384,941</u>	<u>75,514,978</u>	<u>9,281,542</u>	<u>115,592,537</u>	<u>239,408,192</u>
UNSPENT BUDGET AUTHORITY BY FUND															
General Fund	\$ 442,928			\$ 34,974	\$ 26			\$ 62,183	\$ 37,835	\$ 6,653		43,758			628,357
State Special Revenue Fund	82,273	\$ 85,122	\$ 519,069		894,789		\$ 603,744	90			(51,297)	16,244,517	2,693,639	(117,650)	20,954,296
Federal Special Revenue Fund	19,373				20,487						4,786,077	22,668,665	1,609,387		29,103,989
Capital Projects Fund	1				1,199,064						9,925,161	36,619,759	4,978,516	13,125,547	65,848,048
Enterprise Fund	68,740			182,323		\$ 4,388,561		781,009			725,000				6,145,633
Internal Service Fund	212,813			1,919,256	4,329,025		4,332,490	321,862							11,115,446
Pension Trust Fund								30,049						30,049	
Unexpended Plant Fund					3,059,455							(80,920)		101,367,520	104,346,055
Renewal & Replacement Fund												19,199		1,217,120	1,236,319
Unspent Budget Authority	\$ <u>826,128</u>	\$ <u>85,122</u>	\$ <u>519,069</u>	\$ <u>2,136,553</u>	\$ <u>9,502,846</u>	\$ <u>4,388,561</u>	\$ <u>4,936,234</u>	\$ <u>1,195,193</u>	\$ <u>37,835</u>	\$ <u>6,653</u>	<u>15,384,941</u>	<u>75,514,978</u>	<u>9,281,542</u>	<u>115,592,537</u>	<u>239,408,192</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

# **Department of Administration**

## **Notes to the Financial Schedules**

### **For the Two Fiscal Years Ended June 30, 2004**

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#### **1. Summary of Significant Accounting Policies**

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##### **Basis of Accounting**

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The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust, Pension Trust, and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

##### **Basis of Presentation**

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The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared

## Notes to the Financial Schedules

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from the transactions posted to the state's accounting system without adjustment.

In order to reflect the total department operations the financial schedules present the combined operations of four separate business units identified on the state's accounting system; "Department of Administration," "Appellate Defender," "Long Range Building," and "Montana Consensus Council."

Department accounts are organized in funds according to state law applicable at the time transactions were recorded. The department uses the following funds:

### **Governmental Fund Category**

**General Fund** - to account for all financial resources except those required to be accounted for in another fund.

**State Special Revenue Fund** - to account for proceeds of specific revenue sources (other than private purpose trusts or major capital projects) that are legally restricted to expenditures for specific purposes. Department State Special Revenue Funds include the 911 Telecommunications Program, Architecture and Engineering Construction, Public Safety Radio, and Financial Institutions Division. Effective July 1, 2003 (fiscal year 2003-04), the Montana Consensus Council is included in the State Special Revenue Fund under the provisions of Chapter 503 (HB741), Laws of 2003, which transferred the Council from the Governor's Office to the department for administrative purposes.

**Federal Special Revenue Fund** – to account for funds received from federal assistance programs. Department Federal Special Revenue Funds include federal surplus property, GIS federal funding, GIS-Homeland Security Grant, Job and Growth Tax Relief Act, Public Safety Communications, and the federal portion of the State Fund dividend.

**Debt Service Fund** - to account for accumulated resources for the payment of general long-term debt principal and interest. The



## Notes to the Financial Schedules

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department uses this fund for the Long-Range Building Program and Information Technology bonds.

**Capital Projects Fund** - to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund to account for activity in the Long-Range Building Program.

**Permanent Fund** – to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the department’s programs. The department uses this fund for School Bond Contingency Loans.

### Proprietary Fund Category

**Internal Service Fund** - to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The Department has 17 internal service funds. The three most significant internal service funds include ITSD Proprietary, Agency Insurance, and Group Benefits Claims AIC.

**Enterprise Fund** - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Department Enterprise Funds include flexible spending funds, state lottery, and surplus property.

### Fiduciary Fund Category

**Pension Trust Fund** – to account for resources required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post employment benefit plans, or other employee benefit plans. Department pension trust funds include voluntary employee benefit association trust.

## Notes to the Financial Schedules

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**Private-Purpose Trust Fund** – to account for activity of all (other) trust arrangements under which principal and income benefit individuals, private organizations, or other governments. Department Private-Purpose Trust Funds include stale dated warrants.

**Agency Fund** – to account for resources held by the state in a custodial capacity. The department agency funds include central payroll, bad debt collections, and the general warrant clearing account.

### Plant Funds

**Plant Funds** – to account for transactions related to construction of university system properties. Because the Architecture and Engineering Division expends funds for university construction projects, the department records activity in the following sub-funds:

**Unexpended Plant Funds** – comprised of amounts which have been appropriated or designated for construction or purchase of university improvements, buildings, and equipment.

**Renewal and Replacement Funds** – provide resources for the remodeling or replacement of university properties.

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### 2. General Fund Balance

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The departments total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances for each of the two fiscal years ended June 30, 2003 and June 30, 2004. These balances reflect activity at the department and not the fund balance of the statewide General Fund.

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### 3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, Special Revenue, Debt Service, Capital Projects, Internal Service, Enterprise, Agency, Private-Purpose Trust, and Pension Trust funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The department is the administrator of the General Fund. The direct entry to fund balance

in the amount of \$49 million in fiscal year 2003 and \$87 million in fiscal year 2004, reflects the department closing out cash entries. Within the other funds, there are shared accounts with other state agencies. One agency may record revenue and another agency consolidate cash balances at fiscal year end.

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#### 4. Other Financing Sources

Other financing sources include debt service bond payments, transferring fund and authority for capital building projects. House Bill 363 amended 39-71-2352, MCA, and mandated a transfer from the State Compensation Insurance Fund's Old Fund to the General Fund. Based on audited financial statements adjusted for unrealized gains and losses, any dollars remaining after liabilities have been eliminated should be transferred to the General Fund. This transfer amounted to \$18.2 million in 2003.

## **Department Response**

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DEPARTMENT OF ADMINISTRATION  
DIRECTOR'S OFFICE



JUDY MARTZ, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

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PO BOX 200101  
HELENA, MONTANA 59620-0101

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OCT 21 2004

LEGISLATIVE AUDIT DIV.

October 21, 2004

Scott Seacat  
Legislative Auditor  
Legislative Audit Division  
State Capitol, Rm. 160  
Helena, MT 59620

Dear Mr. Seacat:

We have reviewed the recommendations pertaining to the Financial-Compliance Audit for the fiscal year ending June 30, 2004. Our responses are as follows:

RECOMMENDATION #1: WE RECOMMEND THE DEPARTMENT COLLECT CERTIFIED WEEKLY PAYROLLS FOR PROJECTS SUBJECT TO THE FEDERAL DAVIS-BACON ACT IN ACCORDANCE WITH FEDERAL REGULATIONS.

Response: Concur. We will review our existing policies and procedures with each project manager to help ensure 100% compliance with federal Davis-Bacon Act reporting requirements.

RECOMMENDATION #2: WE RECOMMEND THE DEPARTMENT IMPLEMENT CONTROLS TO ENSURE FEDERAL FUNDS ARE EXPENDED IN COMPLIANCE WITH STATE AND FEDERAL REGULATIONS.

Response: Concur. The department is reviewing all federal funding sources and will implement controls to ensure expenditures are in compliance with state and federal regulations. Training opportunities are also being sought to help program managers better manage these funds.

RECOMMENDATION #3: WE RECOMMEND THE DEPARTMENT REQUIRE EMPLOYEES TO PROPERLY COMPLETE TRAVEL VOUCHERS IN ACCORDANCE WITH STATE POLICY.

Response: Concur. The importance of the proper completion of travel vouchers will be re-emphasized to all department employees and approving supervisors. Internal controls and procedures are also being reviewed to further ensure compliance with state travel policy.

**RECOMMENDATION #4:** WE RECOMMEND THE DEPARTMENT PROVIDE APPROPRIATE STAFF TRAINING REGARDING ADMINISTRATION OF FEDERAL GRANTS AND FEDERAL GRANT REQUIREMENTS IN ORDER TO IMPROVE COMPLIANCE WITH THOSE REGULATIONS.

Response: Concur. The department has begun to actively pursue federal funding opportunities from a variety of sources to assist in the funding of important information technology initiatives. Our recent experience with a highly regulated federal funding source underscored the importance of a full understanding of the underlying grant regulations and requirements.

Given this change in funding, federal grant training will be provided for employees involved with the administration of federal grants. Further, internal administrative changes are in progress to independently monitor potential commitments of federal grants to ensure each comports to underlying federal grant regulations.

**RECOMMENDATION #5:** WE RECOMMEND THE DEPARTMENT DEVELOP AND IMPLEMENT A PLAN TO OPERATE ITS PROPERTY AND CASUALTY INSURANCE PLAN ON AN ACTUARILLY SOUND BASIS.

Response: Concur. The department is implementing a plan to move the property and casualty insurance plan to an actuarially sound basis over time. As noted in the finding write-up, insurance rates approved by OBPP for the Governor's 2007 biennium budget – the first step of the corrective action plan – will provide significant progress. The department will aggressively defend the approved rates throughout the legislative appropriation process next session and continue transition efforts during the 2009 biennium budget cycle.

**RECOMMENDATION #6:** WE RECOMMEND THE DEPARTMENT RECORD THE MINERAL LEASING TRANSFER OBLIGATION AT THE CONCLUSION OF THE FISCAL YEAR AS REQUIRED BY SECTION 17-3-240, MCA.

Response: Do not concur. We have a fundamental disagreement on whether the statute in question provides for a revenue distribution or dedication. This difference of opinion, and the differing accounting treatment of each, led to the audit finding.

The department is convinced the statute creates a revenue distribution and the accounting transactions are correct. The plain words of the statute and its use of the word "distribute" to describe the flow of funds supports this view, in addition to other factors.

Nevertheless, the department acknowledges that statute could provide a better accounting of the flow of funds. The statute could be revised so that the mineral leasing revenue is deposited directly into the two funds upon receipt. The distribution of the funds on hand can still be completed on August 15. If the Audit Committee were to agree to introduce legislation, the Department of Revenue and the Department of Administration will actively support the bill.

**RECOMMENDATION #7: WE RECOMMEND THE DEPARTMENT REVIEW SUPPORT FOR THE LONG-TERM NOTES AND LOANS RECEIVABLE BALANCE IN THE SURPLUS PROPERTY FUND AND THE FUND BALANCE-RESERVED BALANCE IN THE TRUST FUND.**

Response: Concur. These balances, along with many other similar balances at other agencies, were identified by department staff during the preparation of the fiscal year 2003 CAFR. Discussion was initiated with both of these divisions about these balances but they were not resolved prior to June 30, 2004. We will work with the related divisions to identify any necessary corrections and insure they are recorded on SABHRS prior to June 30, 2005

**RECOMMENDATION #8: WE RECOMMEND THE DEPARTMENT MAINTAIN RECORDS OF THE INFORMATION PROVIDED TO THE CONSULTANT TO DOCUMENT THE STATE'S COMPLIANCE WITH TERMS OF THE SWCAP CONTRACT.**

Response: Concur. We will retain and review copies of all information given to the SWCAP consultant in the future.

**RECOMMENDATION #9: WE RECOMMEND THE DEPARTMENT PAY THE GENETICS PROGRAM FEE BY MARCH 1 AS REQUIRED BY SECTION 33-2-712, MCA.**

Response: Concur. We will ensure the genetics program fee payment is made by March 1 regardless of whether we receive an invoice from the State Auditor's Office.

**RECOMMENDATION # 10: WE RECOMMEND THE DEPARTMENT SEEK LEGISLATION TO AMEND SECTION 17-5-302, MCA, TO REFLECT CURRENT SECURITY INDUSTRY PRACTICE.**

Response: Concur. We have prepared legislation to remove the outdated language of the statute, as well as other unnecessary public bonding statutes.



Scott Seacat  
October 21, 2004  
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We appreciate the opportunity to work with your staff on these issues.

Sincerely,

A handwritten signature in black ink, appearing to read 'SB', with a long horizontal flourish extending to the left.

STEVE BENDER  
Acting Director